

Dynamic and Marketing Capabilities as Predictors of Social Enterprises' Performance

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Abstract

Social enterprises (SEs) have an increasingly important role in developing more equitable societies worldwide. The capabilities of SEs are an important driver of their performance, but research in this area is still emerging, and the link between capabilities and performance has yet to be examined. By drawing on the dynamic capabilities perspective, it is suggested in this study that absorptive capacity—an organization's ability to absorb, assimilate and apply knowledge—affects a SE's performance indirectly via its marketing capabilities. Using data from Hong Kong and Taiwanese social enterprises ($n = 109$), a set of hypotheses related to the capabilities–performance linkage were tested. The results show that the marketing capabilities of SEs mediated the relationship between absorptive capacity and financial performance. However, absorptive capacity was not associated with improved social performance via marketing capabilities. The paper concludes with a discussion of the implications of the findings and directions for future research.

Keywords: Absorptive Capacity; Marketing Capabilities; Social Performance; Financial Performance; Social Enterprises

Introduction

Social enterprises (SEs) are increasingly significant in addressing various social problems in the world. In the Chinese region, which includes Hong Kong, Macau, Taiwan, and Mainland China, the number of social enterprises is growing rapidly, and these enterprises have attracted the interest of commercial and government sectors in addition to social organizations (Chandra & Wong, 2016; Chan et al., 2011; Dai, Lau & Lee, 2017). Neo-liberal social welfare policies in this region have led to the growth of SEs (Lee, 2017) along with the pursuit of financial sustainability by non-profit organizations (Wong & Tang, 2006), the entrepreneurial transformation of the philanthropy sector (Wang & Li, 2019), and businesses recognizing their roles as “good citizens.” Although there is no commonly agreed-upon definition, most of the discourse on SEs in the Chinese region takes the view generally held in the West (Chandra & Wong, 2016), regarding them as organizations with social missions, whose innovative business operations lead to the creation of social and economic value (Mair & Marti, 2006; Nicholls, 2006).

SEs in the Chinese region face many challenges in sustaining their operations, like their for-profit counterparts (Leung et al., 2019). They may lack business/financial management skills (Leung et al., 2019) or marketing skills and capabilities, encounter problems in finding skilled workers (Kee, 2015), and have low public awareness of the SE sector (Bauhinia, 2013) in addition to competition from for-profit businesses that may affect their development (Ip et al., 2017). Given these challenges, the *capabilities* to manage knowledge and to enhance commercial and social value are important in improving the performance of SEs (Domenico, et al., 2010; Tracey et al., 2011).

In this study, we focus on an important but under-studied driver of SE performance: their capabilities to manage and apply knowledge to commercial ends, otherwise referred to as their “dynamic capabilities” (Cohen & Levinthal, 1990; Zahra & George, 2002), and to conduct marketing activities (Morgan et al., 2009; Ngo & O’Cass, 2012). We view dynamic capabilities and marketing capabilities as key predictors of SE performance. Specifically, we suggest that SEs’ dynamic capabilities affect and translate into marketing capabilities, which then influence their financial and social performance. We view the financial and social performance of SEs as closely connected, as their financial performance enables them to sustain their operations to achieve social goals, and their social performance enhances their legitimacy and public trust, which are necessary for their commercial success. Although these capabilities are important for organizational success, the extent of their influence on the financial and social performance of SEs in the Hong Kong and Taiwan context is as yet unknown. Few studies have addressed SEs in this context, and very little research into their performance has been conducted using large datasets.

To address this gap, the following interrelated questions are addressed in this study: ***Do dynamic capabilities and marketing capabilities influence the performance of social enterprises? Do marketing capabilities mediate the relationship between absorptive capacity and the performance of social enterprises, and if so, to what extent?***

This study makes two important contributions to the nonprofit and SE literature. First, it extends the literature to Hong Kong and Taiwanese SEs by examining the link between capabilities and performance. Second, it demonstrates that the absorptive capacity of social enterprises affects

their financial performance indirectly via marketing capabilities, which is a theoretical relationship that has not been examined in the context of social enterprises. We discuss the implications of the study for theory, practice, and policy.

Theoretical Background

In this study, we proposed and tested a conceptual model (see Figure 1), which suggests that marketing capabilities act as a leveraging mechanism that assists SEs in transforming the potential benefits of absorptive capacity into improved financial and social performance. We examine the concept of absorptive capacity as a core element of dynamic capabilities, discuss marketing capabilities, and then formulate our hypotheses in more detail.

Figure 1 goes about here

Absorptive capacity as a core element of dynamic capabilities

As an extension of the resource-based view³ (RBV) of the firm, the theory of dynamic capabilities (Eisenhardt & Martin, 2000; Teece et al., 1997) is commonly studied in the field of strategic management. The dynamic capabilities perspective has been applied to explain how organizations develop or adapt their capabilities in a changing environment to enhance their success (Makadok, 2001; Schreyoegg & Kliesch-Eberl, 2007; Teece et al., 1997). A core element of this perspective is the organization's absorptive capacity.

³ RBV theory suggests that the sustainable competitive advantage of organizations requires the possession of resources that are valuable, rare, inimitable, and non-substitutable (VRIN) (Teece, Pisano, & Shuen, 1997).

Absorptive capacity is an organization's ability to recognize the value of new external information, assimilate it, and apply it to commercial ends (Cohen & Levinthal, 1990). It comprises a set of organizational processes and routines that help an organization enhance its ability to identify, fully understand, convert, and utilize knowledge, thus enhancing organizational success (Zahra & George, 2002). Other scholars have further extended the concept of absorptive capability to conceptualize it as an organization's ability to apply external knowledge through three sequential processes (Lane, Koka, & Pathak, 2006): first, to recognize and obtain new knowledge from external sources through exploratory learning; second, the assimilation of knowledge via transformative learning; and third, using the assimilated knowledge to build new knowledge via exploitative learning.

Scholars have argued that absorptive capacity alone is not a source of competitive advantage (Eisenhardt & Martin, 2000; Zahra, Sapienza, & Davidsson, 2006). Each organization may have a different starting point and takes a unique path in developing its absorptive capacity. Those with the same absorptive capacities may also develop varied capabilities, due to differences in strategic choices and resources, leading to performance heterogeneity among organizations (Zott 2003). The competitive advantage value of absorptive capacity depends on an organization's ability to use that capacity to develop its lower-level (operational) capabilities more effectively and efficiently than its competitors. Absorptive capacity, then, is an important dynamic capability that enables an SE to continually assimilate, recognize, and modify its knowledge-base in ways that are appropriate for rebuilding and reconfiguring its capabilities.

The social enterprise literature stresses the importance of knowledge in ensuring the success of a SE (Guclu, Dees, & Anderson, 2002). For example, Dees et al. (2001) suggested that skills and knowledge can help an SE develop new products in a competitive market. Danna and Porche (2008) pointed out that an SE can absorb and integrate the resources and knowledge of other actors to develop its activities. The process of adaptation and learning can also enable a SE to recognize and embrace new opportunities when pursuing its social mission (Dees, 2001). Meyskens et al. (2010) demonstrated that in terms of creating social value, resources such as innovativeness and knowledge transferability are important for SEs. Thus, to improve financial sustainability and address social problems in environments where resources are limited, reconfiguring the resources and knowledge at hand into innovative solutions is an essential capability for SEs (Domenico, Haugh, & Tracey, 2010).

Some of the literature on Chinese SEs suggests that developing capabilities is important in ensuring the success of SEs. For example, scholars have found that the practice of bricolage—making do with what you have at hand—helps Chinese SEs develop new opportunities amid resource constraints (Chandra, 2016). Leung et al. (2019) found that SEs in Hong Kong that have commercial skills (business management and financial planning) are more likely to survive and sustain their operations. Kee (2015) found that social workers—many of whom are managers of SE units within larger non-profit organizations—need business planning and controlling skills to perform their tasks well. However, the above studies are limited because they relied on small numbers of cases and lack the relatively large volume of quantitative data required to fully understand the capabilities–performance linkage.

Drawing on the dynamic capabilities perspective, some scholars argue that an organization's dynamic capabilities are directly related to its performance (Makadok, 2001; Teece, Pisano, & Shuen, 1997), while others suggest that such capabilities are necessary but cannot solely lead to its competitive advantage (Eisenhardt & Martin, 2000; Zahra, Sapienza, & Davidsson, 2006). In this study, we suggest that absorptive capacity alone, as an organization's core dynamic capability, is unlikely to result in performance improvement for SEs. That is, an SE's absorptive capacity does not *directly* translate into financial and social performance but requires the leveraging mechanism of marketing capabilities to realize this performance.

Marketing capabilities

Marketing capabilities are essential for organizations operating in a market (Day, 1994; Teece, 2007) and consist of resources and competencies related to pricing, product development, promotion, channel management, and the formulation of marketing strategies (Capron & Hullan, 1999; Day, 1994; Vorhies & Morgan, 2005). Thus, knowledge of product development, customers, competitors, pricing, and advertising will affect an organization's performance (DeSarbo, Di Benedetto, Song, & Sinha, 2005; Kohli & Jaworski, 1993; Day, 1994). Marketing capabilities consist of a complex bundle of collective learning, skills, and interrelated routines that enable an organization to identify and execute appropriate marketing functions more effectively than its competitors, and that produce a desired outcome (Day, 1994; Morgan, Vorhies, & Mason, 2009; Murray, Gao, & Kotabe, 2011; Ngo & O'Cass, 2012).

Recent social enterprise studies have shown that the marketing capabilities of SEs are positively associated with their social and financial performance (Liu, Eng, & Takeda, 2013). Reis and Clohesy (2003) suggested that an SE can create and use marketing capabilities to improve efficiency in developing and delivering products and services for customers, and to serve communities better in a highly competitive environment. Allan (2005) argued that customers are more likely to pay a premium price for products with community value. Liu and Ko (2012) found that British SEs developed channel management capabilities to both manage their relationships with their channel members and to make the members aware of their contributions to society. These studies show that marketing capabilities are important in the deployment of market-based resources and knowledge that help SEs achieve good organizational performance.

Hypotheses Development

Absorptive capacity and financial performance: the mediating role of marketing capabilities

The dynamic capabilities perspective indicates that the relationship between dynamic capabilities and performance varies with the routines or resources of an organization (Zott, 2003) and its capabilities in general (Zahra, Sapienza, & Davidsson, 2006). Eisenhardt and Martin (2000) explained that the value of an organization's long-term competitive advantage does not rely solely on its dynamic capabilities. Absorptive capacity, as a type of dynamic capability, is not unique but can be duplicated across organizations, so an SE cannot rely on its absorptive capacity alone as a source of competitive advantage as other organizations may obtain the same capabilities through many methods and paths. Absorptive capacity involves the rebuilding and reconfiguring of ordinary capabilities such as marketing, which then have an impact on an organization's financial performance. Thus, absorptive capacity cannot

exclusively improve the performance of a SE *directly* because it exhibits commonalities across firms (Eisenhardt & Martin, 2000).

By considering the indirect effect dynamic capabilities have on the financial performance of organizations (Eisenhardt & Martin, 2000), we argue that an organization's absorptive capacity can help to rebuild and reconfigure its marketing capabilities, which help increase its financial performance. In this process these capabilities act as a leveraging mechanism that helps SEs translate the potential benefits of absorptive capacity into superior financial performance.

Capabilities such as marketing are essential in organizations as they are required for "making a living." Absorptive capacity is important because it helps an organization to turn knowledge into new products and sell them in the market, through its marketing capabilities. Thus, an organization's absorptive capacity must be monetized using marketing capabilities because it is replaceable, transferable, and not unique, whereas marketing capabilities are often unique to an organization and not easily copied. Strong marketing capabilities in an organization can help it be more alert, timely, and accurate in assessing its customers' needs than its rivals, and it can thus produce market offerings that have better value (Drnevich & Kriauciunas, 2011). These capabilities can therefore provide an SE with a sustained competitive advantage leading to improved financial performance (e.g., Cano, Carrillat, & Jaramillo, 2004; Wood, Bhuian, & Kiecker, 2000). As the potential performance benefits of an SE's absorptive capacity are thus realized via marketing capabilities, we propose the following hypothesis:

Hypothesis 1: The relationship between a social enterprise's absorptive capacity and its financial performance is positively mediated by its marketing capabilities.

Absorptive capacity and social performance: the mediating roles of marketing capabilities

As discussed, absorptive capacity does not directly influence an organization's performance, and its potential social performance benefits can be realized by effectively and efficiently using its marketing capabilities to achieve social outcomes. It can achieve a sustainable competitive advantage and realize its social goals if these capabilities are specific and unique to the organization and not readily transferable or copied (Dutta, Narasimhan, & Rajiv, 1999; Hunt & Morgan, 1995; Vorhies, Harker, & Rao, 1999).

Absorptive capacity will only result in superior social performance if an SE can apply its marketing capabilities effectively. For example, product development capabilities can enable an SE to offer various products or innovative solutions that address the social needs that may be neglected by institutions and are therefore urgently required to help reduce poverty, social exclusion, and inequality (Austin et al., 2006; Haugh, 2005; Pearce, 2003). Hence, marketing capabilities—such as developing products/services, setting an appropriate pricing strategy, and using distribution and promotion strategies—can enable an SE to solve social problems encountered by disadvantaged groups, such as those with disabilities and ethnic minorities.

An indirect relationship between absorptive capacity and social performance via marketing capabilities has also been suggested in the literature on Hong Kong and Taiwanese SEs. For example, Ho and Chan (2010) argued that work-integration SEs should develop marketing capabilities that assist organizations so they can offer a wide range of solutions that are attuned

to the SE's social mission by acquiring and applying knowledge and skills. Chandra (2016, 2017) proposed that strongly performing SEs often have creative marketing skills that enable them to co-create services, using clever pricing schemes and a range of social marketing techniques to attract consumers and partners to enact social change. Therefore, we propose the following hypothesis:

Hypothesis 2: The relationship between a social enterprise's absorptive capacity and its social performance is positively mediated by its marketing capabilities.

Methodology

Sample and data collection

Most research into Chinese SEs has been theoretical (Man & Yuen, 2011; Yu, 2011) and dominated by small-sample studies (Dai et al., 2017; Ho & Chan, 2010; Zhao & Han, 2019). Ours is a larger-scale study, and in it, the term "Chinese" refers to the Special Administrative Regions, Hong Kong, and Taiwan, while the People's Republic of China (PRC) is excluded. The focal population is all social enterprises that have been established for three or more years⁴ in Hong Kong and Taiwan. The Hong Kong samples are derived from the database of the 2016 SE Directory of the Hong Kong Council on Social Services (HKCSS), which contained 368 social enterprise projects operated by 124 organizations. The population of interest was

⁴ We tested the hypotheses using samples of SEs that have been established for three or more years, so we can include SEs with sufficient absorptive capacity and marketing capabilities, because the knowledge and skills of an organization *accumulate over time* (Cohen & Levinthal, 1990) and therefore become more observable from three years onwards.

relatively small, so the sampling frame consisted of the whole population. We sent questionnaires to the SEs listed in the HKCSS SE database and to other SEs that we identified in the Fullness Social Enterprises Society (a large SE society with many SE affiliates and members).

For the Taiwanese samples, we identified 200 SEs in 2016 from the database of Taiwan's Workforce Development Agency and Ministry of Labor. We included SE samples from both Hong Kong and Taiwan because the SE sectors of Hong Kong and Taiwan have been identified as being in a "growth stage" (Chan, Kuan, & Wang, 2011), and can therefore be compared so that inferences can be made. SEs in both Hong Kong and Taiwan also generally share the same main objectives of increasing employment opportunities and income generation for disadvantaged groups (Chan et al., 2011). We found no significant differences in the survey data between the SEs in Hong Kong and Taiwan in terms of their absorptive capacities and marketing capabilities (i.e., when comparing the Hong Kong and Taiwan samples, $t_{42.199} = -4.135$, which is not significant for absorptive capacity, and $t_{46.195} = -4.285$, which is not significant for marketing capabilities).

Data were collected in several steps to ensure reliability and validity. The survey items were derived from an extensive literature review and, when necessary, adapted to suit our study context. We also conducted in-depth interviews with five senior managers or founders of SEs, based on which we adapted and modified the measurement items to better fit our study. A refined questionnaire was then sent to the informants, who were senior managers of SEs in Hong Kong and Taiwan.

To reduce the possibility of common method bias, we used a two-informant approach in the survey. The first group of informants, who represented the SEs' management teams, answered all questions except the dependent variables. The second group, who represented the SEs' customers, only answered questions related to the dependent variables. These data provided valuable information about customers' perceptions of the SEs. To test the face and content validity of the questionnaire and to determine how best to administer the survey, pilot interviews with 20 SE managers were conducted to check whether all items on the questionnaires were understandable and clear to the informants. The initial questionnaires were then revised based on the feedback and were deemed to be of good quality.

Of the 113 completed questionnaires received, 109 were valid, and included 86 eligible responses from Hong Kong and 23 from Taiwan; a response rate of 21%. In terms of industry, 30.3% were in catering and food manufacturing, 5.5% in lifestyle, 2.8% in business support, 6.4% in medical care, 13.8% in education and training, 4.6% in eco-product and recycling businesses, 5.5% in fashion and accessories, 4.6% in domestic cleaning and renovation, 3.7% in logistics and auto services, and 22.9% in "other" areas. In terms of organization age, 14.7% of the SEs had been in operation for more than 15 years, 11.9% for 11 to 15 years, and 73.4% for 5 to 10 years. In terms of employee numbers, 41.3% of SEs had fewer than 10 employees, 22.9% had 11 to 20, 22% 21 to 50, 9.2% 51 to 100, and 4.6% had over 100 employees. Table 1 shows the overall sample characteristics.

Table 1 goes about here

Measurements

We used previously validated measurements scales. Some items were modified to better reflect the specific context of the SE sector, and some new items were added following theoretical insights in the literature. The initial measures were refined following several in-depth interviews and a pilot test (as previously described) to enhance their validity and reliability. We used multi-item measures in the questionnaire. A 7-point Likert scale was used to measure marketing capabilities, which ranged from -3 = much worse than competitors, to +3 = much better than competitors. Seven ranges were used to measure financial performance (0%, 1-10%, 11-20%, 21-30%, 31-40%, 41-50%, and > 50%). The remaining items were also measured using 7-point Likert scales ranging from 1 = strongly disagree to 7 = strongly agree.

Independent variable

We measured absorptive capacity using a second-order construct adapted from Jansen, Van Den Bosch, and Volberda (2005) and Lichtenthaler (2009). Three components (assimilate, reactivate, and apply) were included to represent the three absorptive capacity learning processes (explorative, transformative, and exploitative learning), and the overall absorptive capacity was measured by aggregating these components ($\alpha = 0.89$).

A four-item scale was used to measure “assimilate,” the dimension that measures the ability to absorb knowledge from external sources. A 2-item (of a total of 5) scale was used to measure “reactivate,” the dimension that captures whether an SE can quickly recognize a business opportunity, and three items were dropped from the final questionnaire. The “reactivate” scale

shows high consistency ($\alpha = 0.86$), and the items are based on research into knowledge retention (Jansen, Van Den Bosch, & Volberda, 2005; Marsh & Stock, 2006). This procedure was conducted using the steps suggested by Hair et al. (2010). A 4-item scale was also used to measure “apply,” the dimension reflecting whether an SE regularly implements adaptations for its products.

Mediating variable

The marketing capabilities scale consisted of the eight dimensions of pricing, product development, channel management, marketing communication, selling, market information management, marketing planning, and marketing implementation (Vorhies & Morgan, 2005). A 2-item (of a total of 4) scale was used to measure “pricing,” and 2 items were dropped from the final survey due to cross-loading (as suggested by Hair et al., 2010)⁵. A 4-item (of a total of 5) scale was used to measure “product development,” and 1 item was dropped from the final survey due to cross-loading. A 5-item scale was used to measure “channel management,” while items measuring “marketing communication” and “selling” were dropped from the final survey due to cross-loading⁶ (as per Hair et al., 2010). The capabilities of marketing information management, planning, and implementation were grouped together, and four items were dropped due to cross-loading. This reflects the suggestion that some SE representatives are unable to distinguish between these capabilities (Liu & Ko, 2011). Thus, 17 of the 39 items in the marketing capabilities scale were dropped from the questionnaire due to cross-loading. The

⁵ The items used to measure each construct of the framework all demonstrate a high level of reliability and validity (factor loadings > 0.6 ; Cronbach’s $\alpha > 0.7$). Thus, the remaining scale is acceptable.

⁶ These include five measures for “marketing communication” and five for “selling.”

Cronbach's α coefficient for all measures of marketing capabilities exceeded Nunnally's (1978) standard (pricing: 0.76; product development: 0.88; channel management: 0.95; marketing strategy: 0.96) (Shin & Akien, 2012). Thus, convergent validity was supported (Bagozzi & Yi, 1988).

Dependent variable

The financial performance was measured by asking the informants to indicate the SE's average total profit growth rate over the last three years from one of seven options: 0%, 1-10%, 11-20%, 21-30%, 31-40%, 41-50%, or over 50%. This approach has been found to be effective in previous research, where informants were more likely to provide performance ranges than actual performance outcomes when asked to report sensitive financial data, (Carroll, 2000). The responses were coded using the midpoints of each range: 0%, 5.5%, 15.5%, 25.5%, 35.5%, 45.5%, and 55.5%. The last midpoint was applied to responses in the maximum range (more than 50%) (Drnevich & Kriauciunas, 2011).

An SE's social performance was measured using 4-item scales adapted from Stevens, Moray, and Bruneel (2014). We added a new item: "*We are actively involved in community activities that address social problems.*" The social performance measure of Stevens et al. (2014) was modified from that developed by Aupperle et al. (1985), which has been successfully used in numerous studies (e.g., Agle et al., 1999; Ibrahim, Howard, & Angelidis, 2008). Aupperle et al. (1985) used their instrument to measure the degree of social responsibility, based on Carroll's (1979) definition, and refers to the extent to which organizations want to achieve financial and social goals (Aupperle et al., 1985). From this perspective, social performance can be measured

as an organization's level of engagement in discretionary social activities, including participating in voluntary and charitable activities that address social issues, and regularly examining new opportunities and programs that can be of value to society (Stevens et al., 2014). Next, for each SE, we obtained the perceptions of its customers on its social performance over the previous twelve months.

Control variables

We considered SE age, firm size, ownership type, profit sharing, goals, type of industry, and location as control variables, as these are known to reduce possible confounding effects in the data analysis. The age and size of a SE may affect its ability to acquire new resources and knowledge (Doherty, Haugh, & Lyon, 2014). Large SEs have access to a wider range of resources and knowledge than small SEs. Young SEs are more likely than older SEs to identify new opportunities for developing innovative products/services, which can result in increased value for society and improved financial performance (Desa, 2012; Weerawardena & Mort, 2012). SE age was measured as the number of years an SE has been in operation, and size was measured by its total number of employees. We also controlled for ownership type, as the level of success achieved in accessing resources and knowledge and in terms of growth and sustainability can differ with SE type (Austin et al., 2006; Doherty, Haugh, & Lyon, 2014; Peredo & McLean, 2006; Tracey et al., 2001). Ownership type was coded as 1 for a sole proprietorship, 2 for a partnership, 3 for a co-operative, 4 for a company limited by guarantee registered under Section 88 of the Internal Revenue Ordinance (IRO), 5 for a company limited by guarantee not registered under Section 88 of the IRO, 6 for a society (under Societies Ordinance) registered under Section 88 of the IRO, 7 for a society (under Societies Ordinance)

not registered under Section 88 of the IRO, 8 for non-independent registration, and 9 for others. Industry dummy variables including catering and food manufacturing, lifestyle, education and training, business support, medical care, eco product and renovation, domestic cleaning, and renovation were created to reflect the industries in which SEs in Hong Kong and Taiwan commonly operate. Location was identified as a control variable, because although most SEs in Hong Kong and Taiwan have been set up to address problems of unemployment and poverty, their performance may be different across the regions.

Construct reliability and validity

A reliability test was conducted to evaluate the stability and consistency of the measures for each latent construct. The Cronbach's alpha values for the constructs ranged from 0.759 to 0.954 (0.892 for absorptive capacity, 0.954 for marketing capabilities, 0.773 for financial performance, and 0.794 for social performance), in line with the recommendation of a 0.7 threshold by Nunnally (1978). The composite reliability (CR) values for the constructs ranged from 0.798 to 0.980, thus demonstrating high reliability.

We also examined the convergent and discriminant validity of the constructs. To test the convergent validity of the measurement model, we conducted a confirmatory factor analysis (CFA) using AMOS 21.0 to test the model fit. To meet the measurement model criteria and test for a satisfactory model fit, the threshold values for the comparative fit index (CFI) and incremental fit index (IFI) were set at greater than 0.90, and a root mean square of approximation (RMSEA) of less than 0.08 was used as the cutoff value for a good fit (Gefen, Straub, & Boudreau, 2000). To attain an optimal parameter estimate-to-observation ratio, the

measures were split into two sets of variables by using CFA (Vorhies & Morgan, 2005; Bentler & Chou, 1987). We examined a single factor CFA model for marketing capabilities, and the results showed that the values were within an acceptable range ($\chi^2 = 350.717$, $\chi^2/\text{df} = 1.780$, $p < 0.001$, CFI = 0.932, IFI = 0.933; RMSEA = 0.085). We also conducted CFA on the models for absorptive capacity, financial performance, and social performance. Two items from the financial performance model were dropped because their standardized factor loadings in the CFA were less than 0.5 and their average variance extracted (AVE) was less than 0.5 ($\chi^2 = 252.511$, $\chi^2/\text{df} = 1.460$, $p < 0.001$, CFI = 0.939, IFI = 0.940; RMSEA = 0.065).

Discriminant validity is an assessment of the extent to which a construct of interest differs from other constructs. Fornell and Larcker (1981) suggested comparing the squared correlations between constructs and the AVEs of the respective constructs to evaluate discriminant validity, which is achieved if all AVEs are higher than all shared variances. The results for the present study show that the measures loaded well on the four underlying constructs (absorptive capacity, marketing capabilities, financial performance, and social performance) in the model. All of the loadings were significant at the 0.05 level, and the measures did not load significantly on alternative constructs.

Common method bias

To check for common method bias resulting from the common information source, Harman's one-factor test was conducted by loading all variables into a principal component factor analysis

(Podsakoff & Organ, 1986). The single-factor model was used in this study for controlling any systematic variance among the constructs. In the study model, the single factor constituted 33.342% of the total variance. Thus, this did not account for the majority of the variance, and no single factor emerged from the factor analysis (Podsakoff & Organ, 1986). Thus, common method bias is not a serious problem in this study. Next, CFA was conducted to test whether a single factor accounted for the total variance in the data (Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). We tested one first-order factor analysis on all of the indicator items, including absorptive capacity, marketing capabilities, financial performance, and social performance. The result revealed that the model had a very poor fit ($\chi^2 = 1333.174$, $\chi^2/df = 1.722$, $p < 0.000$, GFI = 0.670, CFI = 0.852, IFI = 0.855, RMSEA = 0.082), which indicated that a common variance factor did not explain a significant proportion of the variation in the data.

Hausman test and multicollinearity test

To check for endogeneity problems, we conducted Hausman's test to specify absorptive capacity as the instrumental variable in a two-stage least squares (2SLS) model and ordinary least squares (OLS) estimates. For the marketing capabilities-financial performance relationship, the statistics of 2SLS ($\beta = 0.696$, $p < 0.001$) were found to be consistent with those of OLS ($\beta = 0.306$, $p < 0.01$). To prevent the problem of multicollinearity, we checked the variance inflation factors (VIFs) to rule out the possibility of collinearity among predictors in the regression analysis. The results showed that VIF values ranged between 1.067 and 1.687, which were less than 5, indicating the absence of any multicollinearity problem.

Data Analysis and Results

Table 2 shows the descriptive statistics of the study. The correlations of the main variables were in the expected direction. The absorptive capacity was positively correlated with marketing capabilities ($r = 0.528, p \leq 0.01$) and financial performance ($r = 0.359, p \leq 0.01$). Marketing capabilities were positively correlated with financial performance ($r = 0.416, p \leq 0.01$). However, absorptive capacity and marketing capabilities were not significantly correlated with social performance.

Table 2 goes about here

We used multiple regression analysis in SPSS version 23.0 to test the hypothesized relationships. Hypothesis 1 predicts that marketing capabilities mediate the positive effect of absorptive capacity and financial performance. The results for this hypothesis are shown in Table 3.

Table 3 goes about here

According to the three-step approach suggested by Baron and Kenny (1986), the mediation model is supported if three steps are met. First, the independent variable (absorptive capacity) should significantly affect the mediator (marketing capabilities). Second, the independent variable (absorptive capacity) should significantly affect the dependent variable (performance). Third, the mediator (marketing capabilities) should significantly affect the dependent variable (performance) when the independent variable (absorptive capacity) is controlled. Our analysis

showed that (1) absorptive capacity was positively related to marketing capabilities ($\beta = 0.539$, $p < 0.001$, Model 1); (2) absorptive capacity was positively related to financial performance ($\beta = 0.331$, $p < 0.01$, Model 3); and (3) after adding in marketing capabilities, the effect of absorptive capacity on financial performance became non-significant ($\beta = 0.196$, not significant, see Model 4). This suggests that marketing capabilities fully mediated the absorptive capacities–financial performance relationship. Therefore, Hypothesis 1 was supported.

Hypothesis 2 predicts that marketing capabilities mediate the positive effect of absorptive capacity on social performance. In this study, the results showed that (1) absorptive capacity was positively related to marketing capabilities ($\beta = 0.539$, $p < 0.001$, Model 1); (2) absorptive capacity had no significant effect on social performance ($\beta = -0.218$, not significant, see Model 6); and (3) after adding in marketing capabilities, the effect of absorptive capacity on social performance was also non-significant ($\beta = -0.187$, not significant, see Model 7). This suggests that first, absorptive capacity is not directly related to social performance and second, marketing capabilities did not mediate the relationship between absorptive capacity and social performance. The implication therefore is that other factors (direct effect) can better predict the social performance of SEs, and that there may be other mediating factors (indirect effect) that can better predict the relationship between absorptive capacity and social performance. Therefore, the results do not support Hypothesis 2.

Validation tests by bootstrapping. We performed bootstrapping with 1,000 samples to produce bias-corrected (BC) confidence intervals for testing the mediation effect (Preacher & Hayes,

2008). The mediating role of marketing capabilities on the relationship between absorptive capability and financial performance was found to have a point estimate of 0.1857. The BC bootstrap 95% confidence interval (CI) estimated that the indirect effect ranged between 0.0772 (lower limit) and 0.3405 (upper limit) with 95% confidence. The indirect effect is significant because this interval does not contain zero, which suggests that marketing capabilities are a good mediator between absorptive capacity and financial performance (but not between absorptive capacity and social performance).

Discussion

In this study, the capabilities–performance theory in social enterprises (SEs) is investigated, particularly the mediating role of marketing capabilities on the absorptive capacity–performance relationship in the context of Hong Kong and Taiwanese social enterprises. One of two hypotheses (H1) was supported. While the study indicates that marketing capabilities mediated the effects of absorptive capacity on financial performance, they did not have a mediating role on the relationship between absorptive capacity and social performance.

This study contributes to the capabilities–performance theory in the strategy and SE literature by offering novel empirical evidence of the absorptive capacity–financial performance relationship in the context of SEs, and that this relationship is mediated by marketing capabilities. It lends support to previous studies suggesting that dynamic capabilities do not necessarily lead to superior performance (e.g., Eisenhardt & Martin, 2000; Helfat et al., 2007; Zahra, Sapienza, & Davidsson, 2006) and extends the research into the context of social enterprises. It supports the reasoning that using the resources and knowledge at hand and

reconfiguring them for innovative market-based solutions are essential capabilities for improving financial sustainability in environments where resources are scarce. It therefore provides evidence for the mediating role of marketing capabilities on the absorptive capacities–financial performance relationship in the context of social enterprises as a key formula for SEs’ success.

In addition, this study’s findings confirm those of other empirical research in the Western context into the implications marketing capabilities have for an organization’s performance (e.g., Liu, Eng, & Takeda, 2013; Liu & Ko, 2012; Powell & Osborne, 2015). As has been shown for British social enterprises, our findings also demonstrate that the development of marketing capabilities, which allow SEs to enhance their product development, pricing, channel management, and marketing planning abilities, and their marketing implementation competencies in managing their marketing programs, have a positive impact on financial performance in the Hong Kong and Taiwan context (Liu & Ko, 2012; Liu, Eng, & Takeda, 2013). Our findings are also in line with the conclusions of Powell and Osborne (2015), who suggested that the adoption of marketing by SEs is essential for their sustainability.

Contrary to our expectations, we did not find support for the mediating role of marketing capabilities on the absorptive capacity–social performance relationship. This finding contrasts with the general assumption that SEs’ marketing capabilities are positively associated with social performance in the Western context (Liu, Eng, & Takeda, 2013), which may be due to the challenges of measuring the social performance of SEs. Social performance can be intangible and difficult to quantify, and comparing it among organizations or sectors can be

problematic (Dees & Anderson, 2002; Nicholls, 2004, 2009). Our survey captured SEs operating in diverse fields such as catering, medical care, education, and logistics, in which social performance may have different meanings or should be measured differently. These differences may in turn necessitate the use of different metrics for evaluating the social performance of SEs (Herman & Renz, 1997).

In addition, measuring the social performance of SEs (almost always) requires the consideration of various social objectives and expectations from stakeholders (Kerlin, 2006). For example, stakeholders such as customers are not involved in the process through which disadvantaged groups become empowered. We anticipated this problem by also surveying SE customers, (one set of respondents in this study) who may have a low level of awareness of societal problems such as poverty, social exclusion, and inequalities, and therefore cannot fully appreciate the community benefits generated by SEs. Stakeholders such as customers may also agree on the social objectives but disagree on the methods or solutions for achieving them (Doherty, Haugh, & Lyon, 2014). Thus, marketing capabilities may not add much value or may not directly affect attempts to enhance the social performance of SEs.

In summary, the findings reveal that an SE's absorptive capacity leads to improved financial performance rather than improved social performance via marketing capabilities. This result supports the research that suggests that organizational tensions arise from attempts to maximize both financial and social performance simultaneously, and that SEs prioritize financial goals when facing the dilemma of pursuing social goals or sacrificing managerial rationality (Battilana & Dorado, 2010; Zahra et al., 2009).

Conclusion

The aim of this study was to investigate the capabilities–performance linkage in the context of social enterprises, and more specifically how absorptive capacity affects both the financial and social performance of social enterprises via marketing capabilities. Our study revealed that marketing capabilities have an important role as a mediator between absorptive capacity and financial performance. The absorptive capacity-marketing capabilities-financial performance pathway is an important route toward success for SEs. However, the marketing capabilities of SEs were not found to have a mediation effect on the absorptive capacity-social performance relationship, thus suggesting that other (direct and indirect) variables may better predict social performance. Future studies should further quantify, measure, and demonstrate social performance.

The findings offer important practical implications. They suggest that marketing capabilities serve as the necessary leveraging mechanism to transform an SE's absorptive capacity into improved financial performance. Given the importance of marketing capabilities, SE managers should devote significant effort and resources to enhancing marketing capabilities, such as those of designing new products/services, setting pricing strategies, and managing distribution channel activities more efficiently and flexibly than their competitors. Given that a substantial proportion of SEs in Hong Kong and Taiwan are launched by nonprofit organizations, which often have less experience or skills in marketing, it is important that they employ or partner with marketing experts.

Our study also suggests that policy makers should provide sufficient resources to enable SEs to develop their capabilities. For example, policies can be directed at developing tailor-made capacity-building programs that focus on the absorptive capacities and marketing capabilities of SEs, through incentivizing business leaders and experts to provide advice, training, contacts, and financing to SEs. This can help SEs improve their competitiveness in the market, particularly those that compete openly in highly competitive business environments against other more financially savvy for-profit businesses.

We view this study as an exploratory endeavor to understand the performance drivers of social enterprises. First, the reported findings may not be representative of other countries that have different legal systems and cultural backgrounds or are at different stages of economic development or SE-sector maturity. Hence, the generalizability of the findings may be limited to Hong Kong and Taiwan. Future studies can explore whether this model can be applied to social enterprises in other countries and include other variables as direct or indirect predictors of performance. Second, the data in this research were collected via a cross-sectional design. Future research can utilize a longitudinal research design (quantitative and/or qualitative) and explore how absorptive capacity may change over time, using lagged time to better predict the causal relationship between absorptive capacity and performance.

Third, although we carefully reviewed the literature to ensure that our social performance measures were valid and could be applied to maximize the objectivity of the study's respondents (Luke, Barraket, & Eversole, 2013; Peredo & Mclean, 2006; Stevens et al., 2014), the measures may not always reflect reality (Carroll, 2000). Social enterprises operate in broader

organizational functions and institutional settings, a reality that makes it difficult to apply standard performance measures (Nicholls, 2009; Zahra et al., 2009). The term “social performance” is subjective and has different meanings for different stakeholders. Social performance is often intangible and hard to measure and quantify (Nicholls, 2009; Zahra et al., 2009). In addition, SEs operate in different industry fields with different organizational structures (Alter, 2004) and thus may require the use of different metrics for evaluating SE performance (Herman & Renz, 1997). Future studies can propose new measures or methods to avoid potential problems in this area. Variables related to social issues can be applied when studying the social performance of SEs. For example, Dart (2004) suggested that the characteristics of and distinctions between nonprofit and social enterprise organizations can be explained by referring to social variables such as legitimacy, social values, social trends, and social performance. These variables can be tested in future research on the SE capabilities–performance relationship.

Overall, this study makes an important contribution to the SE literature by proposing and verifying a model that shows how marketing capabilities mediate the relationship between absorptive capacity and financial performance in the Hong Kong and Taiwan context. Our study also highlights important issues regarding the measurement of “social performance” as areas for future research.

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TABLE 1: SAMPLE CHARACTERISTICS

Firm characteristics	Frequency	Percent
Number of employees		
< 10	45	41.3%
10 - 20	25	22.9%
21-50	24	22%
51-100	10	9.2%
>100	5	4.6%
Industry sector		
Catering and food manufacturing	33	30.3%
Lifestyles	6	5.5%
Business support	3	2.8%
Medical care	7	6.4%
Education and training	15	13.8%
Eco-product and recycling	5	4.6%
Logistics and auto services	4	3.7%
Other	36	32.9%
Age		
5-10 years	80	73.4%
11 to 15 years	13	11.9%
More than 15 years	16	14.7%

N = 109

TABLE 2: MEANS, STANDARD DEVIATIONS, AND CORRELATIONS

Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Absorptive Capacity	4.196	0.984	1													
Marketing Capabilities	4.606	0.874	0.528**	1												
Financial Performance	12.372	11.192	0.359**	0.416**	1											
SE Age	9	6.458	0.205*	0.063	0.026	1										
SE Size	2.128	1.187	0.15	0.023	0.013	0.376**	1									
Ownership Type	5.028	2.754	-0.032	0.045	0.064	0.083	-0.157	1								
Catering & Food Manufacturing	0.303	0.462	-0.005	0.11	0.087	0.222*	0.300**	-0.072	1							
Lifestyle	0.055	0.229	0.157	-0.048	-0.026	-0.01	0.008	-0.076	-0.159	1						
Education & Training	0.138	0.346	-0.053	-0.026	-0.017	-0.123	-0.088	0.045	-0.263**	-0.096	1					
Business Support	0.028	0.164	0.024	-0.064	0.002	-0.045	0.077	-0.022	-0.111	-0.041	-0.067	1				
Medical Care	0.064	0.246	0.038	0.003	-0.108	-0.114	-0.123	0.025	-0.173	-0.063	0.105	-0.044	1			
Eco Product & Recycling	0.046	0.21	0.029	-0.036	0.029	-0.047	-0.061	-0.002	-0.144	-0.053	-0.088	-0.037	-0.057	1		
Domestic Cleaning & Renovation	0.046	0.21	-0.189*	-0.251**	-0.202*	0.179	0.125	-0.002	-0.144	-0.053	-0.088	-0.037	-0.057	-0.048	1	
Location	0.789	0.41	-0.338**	-0.328**	-0.355**	-0.327**	-0.248**	-0.093	-0.198*	0.026	0.011	0.087	0.044	0.113	0.113	1

Notes: *N* = 109

TABLE 3: RESULTS OF THE MEDIATING EFFECT OF MARKETING CAPABILITIES

	Marketing Capabilities		Financial Performance		Social Performance		
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Control variables							
SE Age	-0.072	-0.081	-0.127	-0.109	0.086	0.116	0.112
SE Size	-0.098	0.056	0.016	0.041	-0.062	-0.035	-0.041
Ownership Type	0.038	-0.020	0.000	-0.010	0.008	-0.005	-0.003
SE Goals	-0.049	0.187	0.176	0.188	0.004	0.011	0.008
Profit Sharing	0.131	0.031	0.101	0.068	-0.182	-0.228	-0.220
Catering & Food Manufacturing	0.063	0.031	0.078	0.062	-0.140	-0.171	-0.168
Lifestyle	-0.143	0.089	0.040	0.076	0.008	0.040	0.032
Education & Training	-0.032	0.115	0.133	0.141	-0.070	-0.081	-0.083
Business Support	-0.061	-0.069	-0.075	-0.059	-0.005	-0.001	-0.005
Medical Care	-0.059	0.051	0.028	0.043	-0.025	-0.010	-0.013
Eco Product & Recycling	-0.050	-0.049	-0.062	-0.049	-0.069	-0.061	-0.064
Domestic Cleaning & Renovation	-0.108	-0.096	-0.022	0.005	-0.012	-0.061	-0.067
Location	-0.137	-0.341	-0.242	-0.208	0.019	-0.046	-0.054
Independent variables							
Absorptive Capacity	0.539***		0.331**	0.196		-0.218	-0.187
Mediating variables							
Marketing Capabilities				0.250*			-0.057
<i>R</i> ²	0.618	0.219	0.302	0.340	0.062	0.098	0.100
Change <i>R</i> ²	0.219***	0.219*	0.082**	0.039*	0.062	0.036	0.002
<i>F</i>	4.145***	2.054*	2.901**	3.200***	0.487	0.731	0.69

Notes: *N* = 109; **p* < 0.05, ***p* < 0.01, ****p* < 0.001

Figure 1: Conceptual Model

